

STATE OF CALIFORNIA

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Date: March 12, 1999

PAYROLL LETTER # 99-007

To: All Agencies/Campuses in the Uniform State Payroll System

From: Ralph Zentner, Chief
Personnel/Payroll Operations Bureau

Re: FRINGE BENEFITS/EMPLOYEE BUSINESS EXPENSE REPORTING
COMPLIANCE REVIEW

FB/EBE REPORTING COMPLIANCE

This Payroll Letter addresses a significant Fringe Benefit/Employee Business Expense (FB/EBE) reporting compliance problem -- surge reporting.

FB/EBE REPORTING REQUIREMENTS

Under federal and state tax law, taxable and reportable FB/EBEs must be reported and taxes paid based upon constructive receipt. You must report taxable FB/EBE income to the State Controller's Office by the 10th of the month following the month that an employee receives this income. Tax law precludes alternative reporting practices, such as surge reporting, created by employers for administrative ease, convenience, resource consideration, etc.

SURGE REPORTING

Surge reporting occurs in two ways. First, an employer combines or lumps several months of taxable FB/EBE income and reports that income as if it were earned in a single month. Second, an employer provides taxable FB/EBEs to employees during the tax year but does not report these benefits until year end. In essence, an employer reports annually versus reporting based upon constructive receipt (flow basis, monthly).

Surge reporting is neither legal nor a viable business practice. Employers practicing surge reporting are subject to a variety of tax authority compliance measures (fines, penalties, etc.). Likewise, surge reporting can impose an inappropriate financial burden on employees. Surge reporting creates disproportionate tax withholding from a single payment versus proportionate withholding from multiple payments under constructive receipt processing.

Based on 1998 statewide reporting demographics (agency and campus profiles), surge reporting is occurring within both the Civil Service (CS) and California State University (CSU) employer communities. For CS, surge reporting occurred most frequently for the following FB/EBEs:

Personal Use of a State Vehicle, Moving Expenses - Relocation, Overtime Meal Compensation and Remote Headquarters Mileage. For CSU, surge reporting occurred most frequently for: Personal Use of a State Vehicle, Moving Expenses -- Relocation and Mileage, Rideshare Incentives, Educational Assistance and Executive Housing Expenses.

Please review your reporting practices and take corrective action as warranted.

CONTACTS

If you require additional information regarding this letter, please contact Jim Fiack, Tax Support Section at (916) 322/8128 or CALNET 492-8128.

RZ:JF/TSS